

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Wales Township</b>	County <b>St. Clair</b>
Audit Date <b>March 31, 2006</b>	Opinion Date <b>August 1, 2006</b>	Date Accountant Report Submitted to State: <b>September 29, 2006</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>Stewart, Beauvais &amp; Whipple PC</b>			
Street Address <b>1979 Holland Avenue</b>	City <b>Port Huron</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature <i>Stewart, Beauvais &amp; Whipple</i>			Date <b>September 29, 2006</b>

**WALES TOWNSHIP, MICHIGAN**

**ANNUAL FINANCIAL STATEMENTS  
with Supplementary Information**

**FOR THE YEAR ENDED  
MARCH 31, 2006**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



# WALES TOWNSHIP, MICHIGAN

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board  
Wales Township  
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Wales Township, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Wales Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Wales Township, Michigan, as of March 31, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 5, and schedules of budgetary comparisons on pages 22 through 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wales Township's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

August 1, 2006

### OVERVIEW OF THE FINANCIAL STATEMENTS

Wales Township's 2006 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

#### *Government-Wide Financial Statements*

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has two kinds of funds:

**Governmental Funds** - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

**Fiduciary Funds** – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

## FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$660,832. This is an increase of \$192,348 over 2005. In a condensed format, the table below shows net assets as of the March 31, 2006 and 2005.

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current assets	\$ 515,077	\$ 483,972
Restricted assets	28,595	25,790
Noncurrent assets	<u>220,942</u>	<u>4,817</u>
Total assets	<u>764,614</u>	<u>514,579</u>
<b>Liabilities</b>		
Current liabilities	<u>103,782</u>	<u>46,095</u>
<b>Net Assets</b>		
Invested in capital assets – Net of related debt	220,942	4,817
Restricted	39,363	110,159
Unrestricted	<u>400,527</u>	<u>353,508</u>
Total net assets	<u>\$ 660,832</u>	<u>\$ 468,484</u>

The Township governmental activities experienced a net change in assets of \$192,348.

The following table shows the changes in net assets for 2006 and 2005.

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 113,452	\$ 92,245
Operating grants and contributions	86,663	11,888
Capital grants and contributions	75,000	-
General revenue:		
Property taxes	110,397	97,341
State-shared revenue	204,095	202,182
Interest income	<u>11,101</u>	<u>3,840</u>
Total Revenue	<u>600,708</u>	<u>410,387</u>
<b>Program Expenses</b>		
General government	\$ 169,738	179,821
Public safety	121,344	101,500
Public works	117,278	46,897
Recreation and cultural	-	6,948
Total Program Expenses	<u>408,360</u>	<u>332,058</u>
<b>Changes in net assets</b>	<u>\$ 192,348</u>	<u>\$ 78,329</u>

### ***Governmental Activities***

Revenues for governmental activities totaled \$600,708 in 2006. Of this amount, \$113,452 was from property taxes, \$204,095 from state shared revenues and \$113,452 for various charges for services including building, plumbing and mechanical permits. The increase of total revenue of \$190,321 from the prior year was due to a state grant to purchase park property for \$74,240 and a donation for the same project of \$75,000.

## **FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS**

### ***Governmental Fund***

The General Fund ended 2006 with a fund balance of \$318,491, with \$11,303 reserved for the inspection department. The remaining fund balance of \$307,188 is unreserved and undesignated. This is a decrease of \$107,043 from the prior year mainly as a result of the purchase of park property of \$216,408 less \$149,240 of donations/grants and \$70,823 of increased road expenditures.

The General Fund budget was amended throughout the year as deemed necessary, primarily to prevent over expenditure. The most significant amendments were to reflect the purchase of park property, which increased revenue by \$216,408 and expenditures by \$208,008. The original budget and final budget estimated that the General Fund would have an excess of expenditures over revenues of \$17,827. Actual expenditures exceeded revenues by \$107,043, mainly as a result of incurring road expenditures of \$106,721 and the purchase of park property net amount of \$67,168 and not receiving grant revenue of \$74,240.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### ***Capital Assets***

The Township adopted a capitalization policy of \$5,000, as a result only assets with an individual value of more than that are capitalized with all items under that value expensed in the year of purchase. As of March 31, 2006 the Township had \$220,942 invested in capital assets (net of accumulated depreciation). During the year the Township added land for \$216,408.

Many of the Townships assets, including land were either donated to the Township or were purchased in the late 1800's or early 1900's therefore are fully depreciated.

Additional information on the Township's capital assets can be found in Note 7.

### ***Long-Term Debt***

The Township did not have any long-term debt at March 31, 2006.

## **ECONOMIC FACTORS AND NEXT YEARS BUDGET**

For fiscal 2007, the Wales Township Board adopted a budget with estimated revenue and expenditures of \$415,110.

We anticipate the budget may be affected by two factors:

- Repairing and remodeling the Township Hall as the result of a damaging arson fire on Monday, September 4, 2006.
- On November 7, 2006, we are proposing an increase in our general ad valorem taxes in the amount of .60 mills for the period of 2007 through 2010 for fire protection services. This will generate approximately \$64,000. The Township will then be able to use the dollars that are now used for fire protection to enhance our road maintenance line item as well as upgrading our technology services.

## **CONTACTING THE TOWNSHIP**

This financial report is designed to provide a general overview of the Township's finances to and our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 325-1517.



## **BASIC FINANCIAL STATEMENTS**

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**STATEMENT OF NET ASSETS**  
**MARCH 31, 2006**

	Governmental Activities
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 377,021
Receivables	128,392
Prepaid expenses	9,664
Restricted Assets -	
Cash and cash equivalents	28,595
Capital Assets (net of accumulated depreciation) -	
Assets not being depreciated	216,408
Assets being depreciated	4,534
Total Assets	<u>764,614</u>
<b>LIABILITIES:</b>	
Payables and accrued liabilities	63,782
Bond deposits payable	40,000
Total Liabilities	<u>103,782</u>
<b>NET ASSETS:</b>	
Investment in capital assets, net of related liabilities	220,942
Net Assets	
Restricted -	
Other	39,363
Unrestricted	400,527
Total Net Assets	<u>\$ 660,832</u>

The accompanying notes are an integral part of these financial statements.

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
<b>Primary Government</b>					
Governmental activities:					
General Government	\$ 169,738	\$ 31,062	\$ -	\$ -	\$( 138,676)
Public Safety	121,344	75,712	1,100	-	( 44,532)
Public Works	117,278	6,678	-	-	( 110,600)
Recreation and Culture	-	-	85,563	75,000	160,563
Total Primary Government	<u>408,360</u>	<u>113,452</u>	<u>86,663</u>	<u>75,000</u>	<u>( 133,245)</u>
General revenues:					
Property taxes					110,397
Grants and contribution not - restricted to specific programs					204,095
Unrestricted investment income					<u>11,101</u>
Total general revenues					<u>325,593</u>
Change in net assets					192,348
Net assets at beginning of year					<u>468,484</u>
Net assets at end of year					<u>\$ 660,832</u>

The accompanying notes are an integral part of these financial statements.

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**MARCH 31, 2006**

	General	Liquor Enforcement	Cemetery Perpetual Care	Total Governmental Funds
<b>ASSETS</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 377,021	\$ -	\$ -	\$ 377,021
Receivable				
Taxes	8,584	-	-	8,584
Other	11,612	-	-	11,612
Due from other governmental units -				
State	108,196	-	-	108,196
Due from other funds	-	600	-	600
Restricted Assets -				
Cash and cash equivalents	-	-	28,595	28,595
	<u>-</u>	<u>-</u>	<u>28,595</u>	<u>28,595</u>
Total Assets	<u>\$ 505,413</u>	<u>\$ 600</u>	<u>\$ 28,595</u>	<u>\$ 534,608</u>
<b>Liabilities:</b>				
Accounts payable	\$ 63,782	\$ -	\$ -	\$ 63,782
Bond deposits payable	40,000	-	-	40,000
Due to other funds	600	-	-	600
Deferred revenue	82,540	-	-	82,540
	<u>186,922</u>	<u>-</u>	<u>-</u>	<u>186,922</u>
Total Liabilities	<u>186,922</u>	<u>-</u>	<u>-</u>	<u>186,922</u>
<b>Fund Balances:</b>				
Reserved -				
Inspection Department	11,303	-	-	11,303
Perpetual Care	-	-	27,460	27,460
Unreserved -				
Undesignated -				
General Fund	307,188	-	-	307,188
Special Revenue Funds	-	600	1,135	1,735
Total Equity	<u>318,491</u>	<u>600</u>	<u>28,595</u>	<u>347,686</u>
Total Liabilities and Fund Equity	<u>\$ 505,413</u>	<u>\$ 600</u>	<u>\$ 28,595</u>	<u>\$ 534,608</u>

The accompanying notes are an integral part of these financial statements.

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS  
MARCH 31, 2006**

Fund Balances - total governmental funds	\$ 347,686
Amounts reported for governmental activities in the statement of net assets are different because:	
Prepaid Expenses recorded in the funds on the purchase method	9,664
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	221,508
Accumulated depreciation	( 566)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>82,540</u>
Net Assets of governmental activities	<u><u>\$ 660,832</u></u>

The notes to the financial statements are an integral part of this statement.

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2006**

	General	Liquor Enforcement	Cemetery Perpetual Care	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 110,397	\$ -	\$ -	\$ 110,397
Licenses and permits	52,149	-	-	52,149
Intergovernmental -				
Federal/State	204,095	1,100	-	205,195
Local	11,323	-	-	11,323
Charges for services	29,125	-	2,200	31,325
Interest and rent	10,496	-	605	11,101
Other	100,175	-	-	100,175
Total Revenues	<u>517,760</u>	<u>1,100</u>	<u>2,805</u>	<u>521,665</u>
<b>Expenditures:</b>				
Current -				
General Government	170,511	-	-	170,511
Public Safety	120,606	738	-	121,344
Public Works	117,278	-	-	117,278
Recreation and Cultural	216,408	-	-	216,408
Total Expenditures	<u>624,803</u>	<u>738</u>	<u>-</u>	<u>625,541</u>
Excess of revenues over (under) expenditures	( 107,043)	362	2,805	( 103,876)
Fund Balances at beginning of year	<u>425,534</u>	<u>238</u>	<u>25,790</u>	<u>451,562</u>
Fund Balances at end of year	<u>\$ 318,491</u>	<u>\$ 600</u>	<u>\$ 28,595</u>	<u>\$ 347,686</u>

The accompanying notes are an integral part of these financial statements.

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2006**

Net change in fund balances - total governmental funds	\$ ( 103,876)
Change in prepaid expenses recorded in the funds on the purchase method	1,056
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	216,408
Depreciation expense	( 283)
Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds.	<u>79,043</u>
Change in net assets of governmental activities	<u><u>\$ 192,348</u></u>

The notes to the financial statements are an integral part of this statement.

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**MARCH 31, 2006**

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ <u>524</u>
 <b>LIABILITIES:</b>	
Due to others	\$ <u>524</u>

The accompanying notes are an integral part of these financial statements.



**WALES TOWNSHIP, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity -**

Wales Township, Michigan, a Municipal Corporation, was organized as a Township in 1841. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 36 square miles. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two (2) Trustees, and provides services to its more than 3,000 residents in many areas including fire protection, health and safety, planning and zoning, and economic development.

**B. Government-wide and fund financial statements -**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as a separate column in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation -**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2005 levy in the year ended March 31, 2006). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# WALES TOWNSHIP, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the current year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

**General Fund** – is the Township's primary operating fund. It is used to account for all financial resources of the general governments except those required to be accounted for in another fund.

The Township reports the following fund types:

**Special Revenue Fund** – is used to account for the proceeds from the State of Michigan requiring separate accounting because of legal, regulatory provisions or administrative action.

**Agency Funds** – are used to account for assets held by the Township as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

# WALES TOWNSHIP, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, the unrestricted resources, as they are needed.

#### **D. Assets, Liabilities and Net Assets or Equity -**

##### **Deposits and Investments –**

The Township's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonable approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

##### **Receivables and Payables –**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible.

##### **Prepaid Items –**

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

##### **Property Tax Calendar –**

The Township's property tax is levied each December 1 on the taxable value of property located in the Township as if the proceeding December 31. Property taxes are recognized as revenues in the year they were intended to finance. The December 2005 levy is recognized as revenue for the year ended March 31, 2006.

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

**WALES TOWNSHIP, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Capital Assets –**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to April 1, 2004.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

Machinery and equipment	18 years
-------------------------	----------

**Fund Equity –**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates –**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information –**

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing April 1. The budgets include proposed expenditures and resources to finance them.

Prior to March 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

# WALES TOWNSHIP, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

The Township's approved budgets were adopted at the function level. However, for control purposes, all budgets are maintained at the object (account) level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended March 31, 2006, the Township incurred expenditures in the General Fund, which were in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
Public Works	\$ 103,700	\$ 117,278	\$ 13,578

### NOTE 3 - DEPOSITS AND INVESTMENTS:

As of March 31, 2006, the carrying amount of the deposits is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits -			
Cash on hand –			
Petty Cash	\$ 500	\$ -	\$ 500
Deposits with Financial Institutions –			
Checking/Money Market	362,102	-	362,102
Savings	<u>43,014</u>	<u>524</u>	<u>43,538</u>
	<u>\$ 405,616</u>	<u>\$ 524</u>	<u>\$ 406,140</u>

The Township's investment policy primary objectives, in order of priority, are safety liquidity, diversification and return on investment. The Township Treasurer is responsible for the investment program.

*Custodial Credit Risk* – is the risk that in the event of a bank failure, the Township's deposit or investments may not be returned. The Township investment policy does not address credit risk.

*Interest Rate Risk* – is the risk that in the event that the market value of securities in the Township portfolio will fall due to changes in the market interest increases. The Township policy attempts to minimize interest rate risk by selecting investments to obtain a market average rate of return and to limit the core of investments to relatively low risk securities.

*Credit Risk* – is the risk that in an issuer or other counterparty to an investment will not fulfill its obligation. State laws and Township policy limit the types of investments the Township can purchase.

## WALES TOWNSHIP, MICHIGAN

### NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

#### NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

*Concentration of Credit Risk* – is the risk of loss attributed to the magnitude of the Township's investment in a single issuer. The Township's policy specifies that investments will be diversified by avoiding over-concentration in securities for a specific issuer of a business sector, excluding U.S. Treasury securities and insured certificates of deposits.

##### **Deposits –**

The Township's investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, deposit accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of March 31, 2006, the bank balance of the Township's deposits were \$417,020 of which \$273,069 was FDIC insured with the balance \$143,951 exposed to credit risk because they are uninsured and uncollateralized.

##### **Investments –**

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the Township to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 365, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

#### NOTE 4 – TAXES:

The Township property taxes are levied each December on the assessed valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

**WALES TOWNSHIP, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006**

**NOTE 4 – TAXES – (cont'd):**

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property in the Township for the 2006 levy has a State Equalized Value (SEV) of \$143,972,913 and a taxable value of \$99,314,625.

The millage rate levied by the Township was .7306 for General Operating.

The County of St. Clair has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

**NOTE 5 - RECEIVABLES:**

Receivables in the governmental activities are as follows:

	<u>Governmental Activities</u>
Taxes	\$ 8,584
Accounts	11,612
Due from other governmental units – State	<u>108,196</u>
	<u>\$ 128,392</u>

Governmental fund report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the components of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund -		
Fire run invoices not received within 60 days of year end	\$ 8,300	\$ -
Grant for Township park land acquisition not received within 60 days of year end	<u>74,240</u>	<u>-</u>
	<u>\$ 82,540</u>	<u>\$ -</u>

**NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:**

The composition of interfund balances as of March 31, 2006:

**Due To/From Other Funds –**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Liquor Enforcement Fund	General Fund	<u>\$ 600</u>

**WALES TOWNSHIP, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006**

**NOTE 7 - CAPITAL ASSETS:**

**Primary Government**

Capital asset activity of the Township for the year ended March 31, 2006 was as follows:

	<u>April 1, 2005 Balance</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>March 31, 2006 Balance</u>
Capital assets, not being depreciated:				
Land	\$ <u>          -</u>	\$ <u>  216,408</u>	\$ <u>          -</u>	\$ <u>  216,408</u>
Capital assets, being depreciated:				
Equipment	5,100	-	-	5,100
Less accumulated depreciation for:				
Equipment	<u>          283</u>	<u>          283</u>	<u>          -</u>	<u>          566</u>
Total capital assets being depreciated, net	<u>          4,817</u>	<u>          283</u>	<u>          -</u>	<u>          4,534</u>
Total capital assets, net	\$ <u>      4,817</u>	\$ <u>  216,125</u>	\$ <u>          -</u>	\$ <u>  220,942</u>

Depreciation expense was charged to function/program of the primary government as follows:

Governmental activities:	
General Government	\$ <u>          283</u>

**NOTE 8 – DEFINED CONTRIBUTION PENSION PLAN:**

The Township provides pension benefits to substantially all employees through a deferred contribution plan. In a deferred contribution plan, benefits depend solely on amounts contributed to the plan plus any investment earnings. The Township contributes 7.5% of the employee's base compensation. All contributions, both employer and employee, become 100% vested at the time of the contribution.

For the year ended March 31, 2006, the Township contributed \$8,806, and the employees contributed \$8,417.

**NOTE 9 – RESTRICTED ASSETS:**

The restricted assets of \$28,595 in the Cemetery Perpetual Care Fund are for perpetual care purposes.



**WALES TOWNSHIP, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006**

**NOTE 10 - RESERVED/DESIGNATED FUND BALANCE:**

**Reserved Fund Balance –**

Fund Balance has been reserved in the various fund types to indicate that a portion of the Fund Balance is not available but reserved for a specific purpose. The following is a summary of the reserved Fund Balance at March 31, 2006:

General Fund –	
Inspection Department	\$ 11,303
Permanent Fund –	
Cemetery Perpetual Care	<u>27,460</u>
	<u>\$ 38,763</u>

**NOTE 11 – RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, would be responsible should limit of coverages be exceeded.

**NOTE 12 – CONTINGENT LIABILITIES:**

The Township has been included in a broad assessment appeal to the Michigan Tax Tribunal filed by several utility companies to challenge the state's tax multipliers for the 2002, 2003 and 2004 tax assessments. Should the tax tribunal rule in favor of the taxpayer, the Township would be required to refund the taxes, which have been assessed and collected.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# WALES TOWNSHIP

## GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 89,000	\$ 89,000	\$ 110,397	\$ 21,397
Licenses and permits	63,000	63,000	52,149	( 10,851)
Intergovernmental -				
State	202,000	202,000	204,095	2,095
Local	-	-	11,323	11,323
Charges for services	20,700	20,700	29,125	8,425
Interest and rents	4,600	4,600	10,496	5,896
Other	12,100	228,508	100,175	( 128,333)
	<u>391,400</u>	<u>607,808</u>	<u>517,760</u>	<u>( 90,048)</u>
<b>Expenditures:</b>				
General Government -				
Legislative	4,000	4,000	3,744	256
Supervisor	16,325	16,325	18,193	( 1,868)
Assessor	17,909	17,909	17,909	-
Clerk	23,143	23,143	25,456	( 2,313)
Treasurer	22,643	22,643	25,492	( 2,849)
Board of Review	1,545	1,545	1,683	( 138)
Cemetery	6,800	6,800	5,320	1,480
Attorney	10,000	10,000	14,065	( 4,065)
General Expenses	29,000	28,900	18,165	10,735
Building and Grounds	41,268	41,368	40,425	943
Elections	100	100	59	41
	<u>172,733</u>	<u>172,733</u>	<u>170,511</u>	<u>2,222</u>
Total General Government				
	<u>172,733</u>	<u>172,733</u>	<u>170,511</u>	<u>2,222</u>
Public Safety -				
Fire Department	59,994	59,994	60,069	( 75)
Zoning	3,100	3,100	3,032	68
Planning Commission	6,000	6,000	3,999	2,001
Inspectors	63,600	63,600	53,506	10,094
	<u>132,694</u>	<u>132,694</u>	<u>120,606</u>	<u>12,088</u>
Public Works -				
Department of Public Works	2,500	6,989	756	6,233
Roads	93,000	88,511	106,721	( 18,210)
Street Lights	8,200	8,200	9,801	( 1,601)
	<u>103,700</u>	<u>103,700</u>	<u>117,278</u>	<u>( 13,578)</u>

Continued

# WALES TOWNSHIP

## GENERAL FUND

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Recreational and Cultural - Parks	\$ 100	\$ 216,508	\$ 216,408	\$ 100
Total Expenditures	409,227	625,635	624,803	832
Excess of revenues over (under) expenditures	( 17,827)	( 17,827)	( 107,043)	( 89,216)
Fund Balance at beginning of year	425,534	425,534	425,534	-
Fund Balance at end of year	<u>\$ 407,707</u>	<u>\$ 407,707</u>	<u>\$ 318,491</u>	<u>\$( 89,216)</u>

Concluded

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**LIQUOR ENFORCEMENT FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED MARCH 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Intergovernmental - State	\$ 1,200	\$ 1,200	\$ 1,100	\$( 100)
<b>Expenditures:</b>				
Public Safety	1,200	1,200	738	462
Excess of revenues over (under) expenditures	-	-	362	362
Fund Balance at beginning of year	238	238	238	-
Fund Balance at end of year	<u>\$ 238</u>	<u>\$ 238</u>	<u>\$ 600</u>	<u>\$ 362</u>

## **FIDUCIARY FUNDS**

**WALES TOWNSHIP**  
**St. Clair County, Michigan**

**AGENCY FUNDS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FOR THE YEAR ENDED MARCH 31, 2006**

**TOTAL ALL AGENCY FUNDS**

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
<b>ASSETS</b>				
Cash and cash equivalents	\$ 500	\$ 2,440,242	\$ 2,440,218	\$ 524
<b>LIABILITIES</b>				
Due to other governmental units	\$ -	\$ 2,440,238	\$ 2,440,218	\$ 20
Performance bonds payable	500	4	-	504
	\$ 500	\$ 2,440,242	\$ 2,440,218	\$ 524

**CURRENT TAX FUND**

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 2,440,238	\$ 2,440,218	\$ 20
<b>LIABILITIES</b>				
Due to other governmental units	\$ -	\$ 2,440,238	\$ 2,440,218	\$ 20

**PERFORMANCE BOND FUND**

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
<b>ASSETS</b>				
Cash and cash equivalents	\$ 500	\$ 4	\$ -	\$ 504
<b>LIABILITIES</b>				
Performance bonds payable	\$ 500	\$ 4	-	\$ 504



## MANAGEMENT LETTER

To the Members of the Township Board  
Wales Township  
St. Clair County, Michigan

In planning and performing our audit of the basic financial statements of Wales Township for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**Cash accounts should be reconciled to the general ledger on a timely basis.**

The Township's bank statements were not reconciled to the general ledger throughout the entire year. Failure to reconcile the cash accounts in a timely manner leaves opportunity for misstatements on the general ledger to occur.

We recommend that the function of reconciling cash be performed in a timely manner, such as within six weeks of month-end.

**A detailed subsidiary ledger should be maintained for fire runs and the billings should be prepared by someone other than the individuals responsible for cash receipting**

The Township currently bills for reimbursement of fire runs. The bills are generated by the Clerks department, which are also the same individuals who receive money either over the counter or via the mail.

**On a periodic basis, a listing should be prepared of performance bonds held by the Township.**

While a detailed listing is currently maintained for all of the activity in the performance bond accounts, there is not a summary listing prepared on a periodic basis of the bonds held as of that date.

We recommend that on a periodic basis, a schedule be prepared of the performance bonds held, listing name, amount and the deposit date. The Township should then follow-up on all old performance bonds to see if they should be refunded or used to pay costs.

**Fees received for the sale of cemetery lots should be collected by the Township Hall.**

At the current time, fees for the sale of cemetery lots are collected by the Township's contracted sexton. To increase controls over the sale of lots, we recommend that all revenue be collected by the Township Hall.



To increase controls a subsidiary ledger should be created to document all fire runs billed, amounts collected and turned over for collection. The billing process should be segregated from the receipting process to avoid inaccurate or fraudulent financial reporting.

This report is intended solely for the information of the Township Board, management, others within the organization, the Michigan Department of Treasury and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

August 1, 2006